AMERICAN VANADIUM CORP.

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
American Vanadium Corp.

We have audited the accompanying consolidated financial statements of American Vanadium Corp., which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of American Vanadium Corp. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about American Vanadium Corp.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada Chartered Accountants

April 29, 2014

AMERICAN VANADIUM CORP.
CONSOLIDATED BALANCE SHEETS
IN CANADIAN DOLLARS

	December 31 2013 $	December 31 2012 $ Restated (Note 3)
ASSETS		
Current assets		
Cash	**1,460,897**	1,716,318
Amounts receivable	**49,479**	42,328
Prepaid expenses (Note 7)	**123,101**	89,416
Deferred engineering management expense and deposit (Note 5)	**-**	557,080
Income tax receivable	**-**	102,035
Total current assets	**1,633,477**	2,507,177
Equipment and deposit on equipment (Note 4)	**142,580**	74,231
Reclamation deposit	**148,393**	145,311
Mineral properties (Note 5)	**1,917,284**	1,922,167
Total assets	**3,841,734**	4,648,886
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	**1,490,661**	1,271,194
Total liabilities	**1,490,661**	1,271,194
Shareholders' equity		
Share capital (Note 6)	**24,097,538**	17,461,187
Equity reserves	**3,493,384**	2,876,809
Deficit	**(25,239,849)**	(16,960,304)
Total shareholders' equity	**2,351,073**	3,377,692
Total liabilities and shareholders' equity	**3,841,734**	4,648,886

Basis of presentation and continuance of operations (Note 2)

Commitments and contingencies (Note 13)

Events after the reporting period (Note 14)

On behalf of the Board:

Signed: "William Radvak" Director

Signed: "Brian E. Bayley" Director

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN VANADIUM CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
IN CANADIAN DOLLARS

	For the year ended December 31	For the year ended December 31
	2013	2012
	$	$
		Restated (Note 3)
Exploration and evaluation expenses (Note 5)	**(4,284,046)**	(4,629,117)
General and administrative expenses:		
Salaries and benefits (Note 7)	**1,170,307**	936,004
Consulting (Note 7)	**608,055**	483,129
Stock-based compensation (Note 7)	**354,402**	334,780
Travel	**258,703**	252,996
Office facilities and administrative services (Note 7)	**195,644**	201,042
Audit and legal	**151,788**	127,254
Investor relations and shareholder information	**148,322**	122,766
Office and sundry	**111,991**	93,404
Transfer agent, listing and filing fees	**58,481**	65,396
Amortization (Note 4)	**31,131**	22,068
Total general and administrative expenses	**(3,088,824)**	(2,638,839)
Write-off of water rights (Note 5)	**(390,338)**	-
Impairment of engineering management deposit (Note 5)	**(568,895)**	-
Foreign exchange gain (loss)	**48,418**	(13,871)
Interest income	**4,140**	9,699
Net comprehensive loss	**(8,279,545)**	(7,272,128)
Basic and diluted loss per share (Note 12)	**(0.22)**	(0.25)

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN VANADIUM CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
IN CANADIAN DOLLARS

	Share Capital	Equity Reserves	Deficit	Total
	$	**$**	**$**	**$**
Balance, December 31, 2011 (Note 3)	14,058,111	2,339,450	(9,688,176)	6,709,385
Private placements, net of share issuance costs	3,211,082	254,573	-	3,465,655
Exercise of stock options	121,994	(51,994)	-	70,000
Performance shares (Note 6)	70,000	-	-	70,000
Stock-based compensation	-	334,780	-	334,780
Net comprehensive loss for the year	-	-	(7,272,128)	(7,272,128)
Balance, December 31, 2012	17,461,187	2,876,809	(16,960,304)	3,377,692
Private placements, net of share issuance costs	6,447,200	281,048	-	6,728,248
Exercise of stock options	56,151	(18,875)	-	37,276
Performance and bonus shares (Note 6)	133,000	-	-	133,000
Stock-based compensation	-	354,402	-	354,402
Net comprehensive loss for the year	-	-	(8,279,545)	(8,279,545)
Balance, December 31, 2013	**24,097,538**	**3,493,384**	**(25,239,849)**	**2,351,073**

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN VANADIUM CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
IN CANADIAN DOLLARS

	For the year ended December 31	For the year ended December 31
	2013	2012
	$	$
		Restated (Note 3)
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		
Net comprehensive loss	**(8,279,545)**	(7,272,128)
Items not involving cash:		
Write-off of water rights	**390,338**	-
Impairment of engineering management deposit	**568,895**	-
Stock-based compensation	**354,402**	334,780
Salaries and benefits settled by issuance of performance and bonus shares	**133,000**	70,000
Amortization	**31,131**	22,068
Changes in non-cash working capital balances:		
Deferred engineering management expense and deposit	**(11,815)**	522,310
Amounts receivable	**(7,151)**	86,328
Accounts payable and accrued liabilities	**219,467**	486,311
Prepaid expenses	**(33,685)**	12,279
Income tax receivable	**102,035**	165,936
Non-operating income:		
Interest income	**(4,140)**	(9,699)
Net cash used in operating activities	**(6,537,068)**	(5,581,815)
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Mineral property acquisition costs	**(385,455)**	(386,224)
Purchase of equipment and payment of equipment deposit	**(99,480)**	(46,844)
Increase in reclamation deposit	**(3,082)**	(59,591)
Interest income	**4,140**	9,699
Net cash used in investing activities	**(483,877)**	(482,960)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of issuance costs	**6,765,524**	3,535,655
Net cash provided by financing activities	**6,765,524**	3,535,655
Change in cash for the year	**(255,421)**	(2,529,120)
Cash, beginning of year	**1,716,318**	4,245,438
Cash, end of year	**1,460,897**	1,716,318

Supplemental Cash Flow Information

Non-cash investing activities

There are no non-cash investing activities during the years ended December 31, 2013 and 2012.

Non-cash financing activities

During the year ended December 31, 2013, the Company issued 80,640 (2012 - 139,245) share purchase warrants valued at $6,825 (2012 - $28,763) as payment for agents' and finders' fees related to various private placements of common shares. These values are recorded as share issuance costs, reducing the value of shareholders' equity.

During the year ended December 31, 2013, $18,875 (2012 - $51,994) was reclassified from equity reserves to share capital on the exercise of stock options.

Income taxes and interest paid

During the year ended December 31, 2013, the Company received a tax refund in the amount of US$102,558 (2012 - US$160,934).

1. NATURE OF OPERATIONS

American Vanadium Corp. (the "Company"), incorporated under the *Canada Business Corporations Act*, is an exploration-stage resources company with title to strategic vanadium properties in the State of Nevada. The Company completed a feasibility study on its flagship Gibellini Property ("Gibellini"). The Company is currently in the environmental permitting stage for Gibellini, with plans to construct and operate the mine in the future, subject to obtaining necessary regulatory approvals, financing and supply arrangements.

The Company entered into a Memorandum of Understanding in February 2013 with Gildemeister Energy Solutions, Cellstrom GmbH ("Gildemeister") of Germany under which it is contemplated that the Company will provide a long-term supply of vanadium electrolyte with stable pricing to Gildemiester. Pursuant to that Memorandum of Understanding, the Company has entered into a master sales agreement with Gildemeister whereby the Company will market and sell Gildemeister's CellCube vanadium redox flow systems in North America.

The address of the Company's principal place of business is Suite #910, 800 W. Pender Street, Vancouver, British Columbia, Canada, and its shares trade on the TSX-Venture Exchange (the "Exchange") under the symbol "AVC" and are quoted on the OTCQX under the symbol "AVCVF".

2. BASIS OF PRESENTATION AND CONTINUANCE OF OPERATIONS

Statement of compliance

These consolidated financial statements, including comparative periods, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements have been prepared in accordance with IFRS in effect as at December 31, 2013. Significant accounting policies and the applicable basis of measurement used in the preparation of these consolidated financial statements are described in Note 3.

These consolidated financial statements were authorized by the Board of Directors on April 29, 2014.

Going concern

These consolidated financial statements have been prepared on the assumption that the Company will continue on a going concern basis. The Company has generally incurred net losses and negative operating cash flows since its inception, and the ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is marketing Gildemeister's CellCube vanadium redox flow batteries, which may provide some operating cash flow, but as this activity is still in a start-up phase, the Company is solely dependent upon its ability to raise funds in capital markets to meet its operating requirements and to finance the permitting and development of Gibellini.

There can be no assurance that the Company will be able to develop profitable operations or continue to raise additional funds, in which case the Company may be unable to meet its financial obligations. Should the Company be unable to generate funds from its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The Company's ability to raise additional funds is dependent on favourable conditions in equity and alternative investment markets, which are volatile and subject to significant uncertainty. The Company will continue to identify alternative sources of financing, but anticipates reliance on equity markets in the near term. Based on these factors, there is a material uncertainty that exists which may cast significant doubt about the Company's ability to continue as a going concern.

As at December 31, 2013, the Company had a working capital surplus of $142,816 (2012 - $1,235,983) and had $2,351,073 (2012 - $3,377,692) in shareholders' equity.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are those policies which the Company has applied for its consolidated financial statements for the years ended December 31, 2013 and 2012. These policies have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

These consolidated financial statements include the balances and results of the Company and those entities over which the Company exercises control. Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

These consolidated financial statements include the assets, liabilities, income and expenses of the Company and its wholly-owned U.S. subsidiary, American Vanadium US Inc. All intercompany transactions and balances have been eliminated on consolidation. Unless otherwise indicated, all amounts are reported in Canadian dollars.

Basis of measurement and presentation currency

The balances in these consolidated financial statements are prepared using the accrual basis of accounting and have been measured on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company and American Vanadium US Inc.

Foreign currency translation

The functional currency, the primary currency in which an entity operates, is determined for the Company and its consolidated subsidiary. Balances and transactions that are denominated in currencies other than the functional currency are translated to the functional currency as follows:

- Revenue and expense items are translated at the foreign exchange rates prevailing on the dates they occur.
- Non-monetary assets and liabilities are translated at historical foreign exchange rates, unless such items are carried at market value, in which case they are translated at the exchange rate in effect on the balance sheet date.
- Monetary assets and liabilities are translated at the foreign exchange rate in effect at the balance sheet date.

Gains and losses arising from changes to the exchange rates used to translate foreign-denominated balances and transactions into the functional currency are recorded as a component of net loss in the period in which they occur.

Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss," "loans and receivables," "available-for-sale," "held-to-maturity," or "financial liabilities measured at amortized cost" as follows:

i) Financial assets

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in net loss for the period in which such gains or losses occur. The Company's cash is classified as fair value through profit or loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest rate method. Under this method, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as interest income. The Company's amounts receivable and reclamation deposit are classified as loans and receivables and no financial assets have been classified as held-to-maturity.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income except for losses in value that are considered other than temporary. Upon disposal of an available-for-sale financial asset, any accumulated other comprehensive income or loss at the time of disposal is recognized in profit or loss. No financial assets have been classified as available-for-sale by the Company.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

ii) Financial liabilities

For financial liabilities classified as financial liabilities measured at amortized cost using the effective interest rate method, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as interest expense. The Company's accounts payable and accrued liabilities are classified as financial liabilities measured at amortized cost, but as the terms of payment are generally of short duration, they are recorded at future value as the impact of discounting is immaterial.

Reclamation deposits

Regardless of whether an actual liability for the reclamation of mineral properties exists, the Company classifies amounts deposited with environmental agencies or amounts held as security for potential reclamation liabilities separately from cash.

Equipment

Equipment is recorded at cost less accumulated amortization. Cost includes the purchase price of the equipment and the directly related costs to transport or prepare the equipment for its intended use. Amortization is provided on a straight-line basis over three to five years, which represents the estimated useful lives of the assets.

Deferred engineering management expense and deposit

The Company is party to an engineering, procurement and construction management ("EPCM") contract. Payments made pursuant to the contract are initially recorded as a deferred expense asset, which is then amortized on a percentage-of-completion basis. Percentage-of-completion is measured on the basis of elapsed time since the inception of the contract as a proportion of the estimated duration required to complete the related work.

The Company also paid a deposit at the outset of the EPCM contract. The deposit balance is assessed for impairment each reporting period, and when the economic benefits from the deposit are no longer expected to flow to the Company, the balance is reduced to its likely economic value.

Voluntary change in accounting policy

As at and prior to December 31, 2012, the Company measured percentage-of-completion for the EPCM contract on the basis of hours spent on the related project by the contractor as a proportion of total expected hours required. Commencing January 1, 2013, the Company now measures percentage-of-completion on the basis of elapsed time since the inception of the contract as a proportion of the estimated duration of the related work. The change in the basis of measurement of percentage-of-completion was made in order to more accurately recognize the Company's contract expense in a reported period.

The change in measurement basis for percentage-of-completion has been applied retrospectively to all periods reported in these consolidated financial statements. Although the total expense pursuant to the contract does not change, the timing of recognition of this expense over the life of the contract has resulted in comparative balances being different than those that were previously reported.

The effects of the change in the measurement basis on prior period balances in the consolidated balance sheet are as follows:

	Deferred Engineering Management Expense and Deposit	Deficit
	$	$
January 1, 2012, as previously reported	1,079,390	(9,688,176)
Impact of change in policy	-	-
January 1, 2012, restated	**1,079,390**	**(9,688,176)**

	Deferred Engineering Management Expense and Deposit	Deficit
	$	$
December 31, 2012, as previously reported	1,776,212	(15,741,172)
Impact of change in policy	(1,219,132)	(1,219,132)
December 31, 2012, restated	**557,080**	**(16,960,304)**

The effects of the change in the measurement basis on prior period balances in the consolidated statement of comprehensive loss are as follows:

	Exploration and Evaluation Expenses	Foreign Exchange Loss	Net Comprehensive Loss	Basic and Diluted Loss per Share
	$	$	$	$
For the year ended December 31, 2012, as previously reported	(3,401,386)	(22,470)	(6,052,996)	(0.21)
Impact of change in policy	(1,227,731)	8,599	(1,219,132)	(0.04)
For the year ended December 31, 2012, restated	**(4,629,117)**	**(13,871)**	**(7,272,128)**	**(0.25)**

This voluntary change in accounting policy had no effect on the Company's consolidated cash flows.

Mineral properties

The Company's accounting policy for mineral property costs is dependent on the stage of the properties to which the costs relate. All capitalized costs are attributed to the individual mineral properties to which they relate, known as cash generating units ("CGUs").

Acquisition costs

All costs incurred to acquire or maintain mineral property rights are capitalized to the relevant CGU. These costs are not depleted until the CGU reaches production.

Exploration and evaluation expenses

Costs related to the exploration and evaluation of properties for which no technically or economically feasible reserves have been identified are recorded as an expense in the period incurred. The Company determines that technical and economic feasibility exists when:

- a feasibility study, prepared in accordance with professional geological standards, defines a proven mineral reserve body;
- the Company intends to recover the mineral reserves through mining activity or sale of mineral rights; and
- the Company has sufficient financing available to develop a mine.

Development costs

When technical and economic feasibility exists for a certain CGU, all costs incurred to further prepare and develop a mine, or to ready the reserve rights for sale, are capitalized. Such costs may include interest on debt financing required to construct a mine or general and overhead expenses that are directly attributable to the CGU. These capitalized costs are not subject to depletion until such time as the mine is ready for production or the mineral rights are saleable, at which point they are depleted on a unit-of-production basis over the estimated recoverable reserves of each CGU.

Post-development costs

After a mine is ready for production or mineral reserves are saleable, all costs, including interest on related debt and general and administrative costs are expensed in the period incurred unless they relate to an extension of mineral reserves or a significant improvement in mining operations. In these instances, the expenditures related to the betterment are capitalized and are depleted on a unit-of-production basis over the remaining recoverable reserves.

Impairment of mineral properties and equipment

The carrying amounts of equipment and mineral properties, regardless of the development stage, are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. The recoverable amount of an asset is determined as the higher of its fair value less cost to sell and its value in use. An impairment loss exists if the asset's carrying amount exceeds the recoverable amount and is recorded as an expense when identified. Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the CGU to which the asset belongs is determined.

Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. For mineral properties, fair value less cost to sell is often estimated using a discounted cash flow approach as fair values from active markets or binding sale agreements are not readily available. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs. All assumptions used are those that an independent market participant would consider appropriate.

Impairments on equipment and mineral properties may be subsequently reversed in subsequent periods. When a reversal of impairment is recorded, the carrying value of the asset is increased to its recoverable amount which cannot exceed the carrying amount of the asset that would have existed had no impairment been recognized in prior periods. Any reversal of impairment is recognized as a component of net (loss) income when identified.

Deferred financing costs

Expenditures directly related to share issuances are recorded as a deferred financing cost until such time as the shares are issued. When shares are issued, the deferred financing cost is recognized as a reduction of the net proceeds from the share issuance. If no shares are issued, these deferred financing costs are recognized as a component of comprehensive loss.

Current and deferred income taxes

Current taxes receivable or payable are estimated on taxable income for the current period at the statutory tax rates enacted or substantively enacted on the balance sheet date.

Deferred tax assets and liabilities are recognized based on the difference between the tax and accounting values of assets and liabilities and are calculated using enacted or substantively enacted tax rates for the periods in which the differences are expected to reverse. The effect of tax rate changes is recognized in earnings or equity, as the case may be, in the period of substantive enactment.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits of the relevant entity or group of entities, in a particular jurisdiction, will be available against which the assets can be utilized.

Reclamation provision

The Company recognizes a provision for environmental reclamation of its mineral properties in the period in which the Company becomes legally or constructively liable for future reclamation expenditures. The reclamation provision is initially measured as the present value of future expected reclamation cash flows, discounted using the risk-free interest rate prevailing at the time the liability is incurred, and a corresponding amount is recorded in the carrying value of the related mineral property.

Subsequent to initial measurement, the provision is re-measured using the risk-free interest rate prevailing on each reporting date. Changes to the carrying value of the provision for changes to the discount rate, or for changes to the timing and amount of expected future reclamation cash flows are recorded as an adjustment to the carrying value of the related mineral property. Changes to the carrying value of the provision from the accretion of its discounted value are recorded as a financing expense.

As at December 31, 2013 and 2012, the Company has no known environmental reclamation commitments.

Stock-based compensation

The Company recognizes a stock-based compensation charge in operations for stock options granted to employees, officers and directors of the Company, as well as to external consultants. The stock-based compensation charge is based on the fair value of option awards granted, measured using the Black-Scholes option pricing model at the date of issue. The fair value of stock options granted is amortized to expense on a graded basis over the vesting periods of the option granted with an off-setting amount recorded in equity reserves. Any expense recorded for options that are forfeited because non-market vesting conditions are not satisfied is reversed in the period in which forfeiture occurs.

Warrants

Warrants issued by the Company typically accompany an issuance of shares in the Company, and entitle the warrant holder to exercise the warrants for a stated price and a stated number of common shares in the Company. The fair value of the warrants is measured as the incremental difference between the value of the combined share and warrant unit and the fair value of stand-alone shares; the fair value attributed to warrants is recorded as a component of equity reserves. When warrants are exercised, the fair value of the exercised warrants is reclassified to share capital.

Restricted share units and performance shares

Certain restricted share units and performance shares are granted to employees or consultants to the Company vest and are settled by the issuance of common shares in the Company upon the achievement of non-market, performance milestones. The Company records an expense for those shares which it determines are likely to be issued, at the time that this determination is made. A corresponding equity reserve balance is recognized, which is reclassified to share capital when earned shares are issued. Should shares considered likely to be issued subsequently be considered not likely to be issued, an expense recovery and reversal of the reserve is recorded.

(Loss) earnings per share

Basic (loss) earnings per share is calculated using the weighted-average number of shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of options, warrants and other convertible instruments. Under this method, the dilutive effect on earnings per share reflects the assumption that the proceeds from the exercise of options, warrants and other convertible instruments are used to purchase and cancel common shares at the average market price during the period. In periods that the Company reports a net loss, loss per share is not presented on a diluted basis, as the result would be anti-dilutive.

Judgments, estimates and measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

Areas where management is required to make significant estimations or where measurements are uncertain are as follows:

i. Mineral properties

The measurement, depletion and impairment of mineral properties are based on various judgments and estimates. These include the technical and commercial feasibility of these properties, which incorporates various assumptions for mineral reserves, future mineral prices, and operating and capital expenditures for the properties.

Differences between actual and anticipated reserves, mineral revenues and costs could result in future impairments being recognized.

ii. Deferred engineering management expense and deposit

The carrying value of the deferred engineering expense and deposit, as well as the expense recognized in a reporting period, is based on the percentage of estimated total duration of a project phase that has been incurred to a reporting date. This calculation requires management to estimate the total duration of a project phase, which it does in consultation with the contractor.

Any impairments recognized on the carrying value of the deferred engineering expense and deposit are based on assessments of the contractor's ability to provide future services of value or to refund any prepaid amounts. In making such estimates and judgments, management considers its intentions and ability to continue with the EPCM contract, and whether any contract terminations or amendments would result in the Company foregoing any value from the balance carried. Additionally, in assessing whether an impairment should be recorded, management must make judgments on the contractor's ability to refund amounts owed to the Company or to complete contracted services for which prepayments have been made. Should the actual outcomes of these factors differ from those estimated by management, the Company may recognize a significant change in the carrying value of the deferred engineering management expense and deposit.

iii. Reclamation provision

The Company records a reclamation provision for the discounted present value of expected future expenditures, if any, required to environmentally reclaim its mineral properties. The measurement of this provision, if one exists, is based on estimates for the amounts and timing of future cash flows. Differences between actual cash flows and those estimated could result in the reclamation provision being over or understated.

iv. Taxation

Tax provisions are recognized to the extent that it is probable that there will be a future outflow of funds to a taxation authority. Such provisions often require judgment on the treatment of certain taxation matters that may not have been reported to or assessed by the taxation authority at the date of these financial statements. Differences in judgment by the taxation authority could result in changes to actual taxes payable by the Company.

Deferred tax assets are recognized to the extent that it is probable that certain taxable losses or deferred expenditures will be utilized by the Company to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based on objective evidence that the Company will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Company's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

v. Stock-based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and share purchase warrants granted. This model requires management to estimate the volatility of the Company's future share price, expected lives of stock options and future dividend yields. Consequently, there is significant measurement uncertainty in the stock-based compensation expense reported.

vi. Restricted share units and performance shares

The determination of whether or not the achievement of performance milestones for restricted share units and performance shares is likely requires management to consider factors such as the likelihood of an employee or consultant remaining with the Company until requisite performance is achieved as well as external factors such as government regulations, financial market developments and industry trends which influence the milestones. Additionally, factors internal to the Company, such as the financial and strategic support for the achievement of the milestone must be considered. This determination is subject to significant judgment and changes to any of these factors or management's interpretation thereof, may result in expenses being recognized or previously recognized expense being reversed.

Adoption of new IFRS

The Company adopted the following new IFRS that became effective for fiscal years starting on January 1, 2013, none of which had a significant impact on the Company`s financial results:

i. IAS 1, "*Presentation of Financial Statements*"

IAS 1 was amended to change the disclosure of items presented in other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.

ii. IAS 32, "*Financial Instruments: Presentation*"

IAS 32 was amended to clarify requirements for offsetting financial assets and financial liabilities.

iii. IFRS 7, "*Financial Instruments: Disclosures*"

IFRS 7 was amended to enhance disclosure requirements related to offsetting financial assets and financial liabilities.

iv. IFRS 10, "*Consolidated Financial Statements*"

IFRS 10 replaced the guidance on control and consolidation in IAS 27, "*Consolidated and Separate Financial Statements*", and SIC-12, "*Consolidation - Special Purpose Entities*". IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

v. IFRS 11, "*Joint Arrangements*"

IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 superseded IAS 31, "*Interests in Joint Ventures*" and SIC-13, "*Jointly Controlled Entities – Non-Monetary Contributions by Venturers*".

vi. IFRS 12, "*Disclosure of Interests in Other Entities*"

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

vii. IFRS 13, "*Fair Value Measurement*"

IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRS that require or permit fair value measurements or disclosures about fair value measurements, except in specified circumstances.

Future changes in accounting policies

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. These standards have been assessed to not have a significant impact on the Company's financial statements:

v. IAS 32, "*Financial Instruments: Presentation*"

IAS 32 is amended to clarify requirements for offsetting financial assets and financial liabilities. This accounting policy is effective for fiscal years beginning on or after January 1, 2014.

vi. IFRS 9, "*Financial Instruments*"

The IASB intends to replace IAS 39 – "*Financial Instruments: Recognition and Measurement*" in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 can currently be adopted voluntarily, but is mandatory for years beginning on or after January 1, 2018.

4. EQUIPMENT

Changes to the Company's equipment balances are as follows:

	Field Equipment	Office Equipment	Vehicles	Total
	$	$	$	$
Cost				
Balance, January 1, 2012	28,680	12,918	41,118	82,716
Additions	12,975	33,869	-	46,844
Balance, December 31, 2012	41,655	46,787	41,118	129,560
Additions	-	15,299	-	15,299
Balance, December 31, 2013	**41,655**	**62,086**	**41,118**	**144,859**
Accumulated amortization				
Balance, January 1, 2012	22,640	4,255	6,366	33,261
Additions	7,069	6,420	8,579	22,068
Balance, December 31, 2012	29,709	10,675	14,945	55,329
Additions	8,608	8,842	13,681	31,131
Balance, December 31, 2013	**38,317**	**19,517**	**28,626**	**86,460**
Carrying value				
January 1, 2012	6,040	8,663	34,752	49,455
December 31, 2012	11,946	36,112	26,713	74,231
December 31, 2013	**3,338**	**42,569**	**12,492**	**58,399**

As at December 31, 2013, the Company had paid $84,181as an instalment towards the purchase of equipment that has not been received. This amount is classified as a deposit on equipment until such time as the related equipment is operating at which point it will be reclassified as equipment and will be subject to amortization.

5. MINERAL PROPERTIES

Summary of properties

a) Gibellini Property, Nevada, U.S.

In March 2006, the Company entered into a Mineral Lease Agreement to acquire 40 unpatented lode mining claims, paying US$60,000 upon the execution of the agreement. Pursuant to the terms of the agreement, the Company is required to pay a production royalty of 2.5% of the net smelter returns ("NSR") of all mineral substances produced from the claims, to a maximum of US$3,000,000, at which point the production royalty decreases to 2.0%. The Company is also required to pay US$30,000, quarterly, and such payments are credited against any future production royalties payable. As of December 31, 2013, the Company has paid a total of US$750,000 in these advance royalty payments, including US$120,000 paid during the year ended December 31, 2013.

In December 2006, the Company entered into a Mineral Lease Agreement to acquire 12 unpatented lode mining claims, paying US$9,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company is required to pay an initial production royalty payment of US$30,000 within 60 days of production from the claims and a production royalty of 3.0% of NSR of all mineral substances produced from the claims. Also, the Company must pay an escalating series of annual payments, which will be credited against any future production royalties payable. As of December 31, 2013, the Company has paid a total of US$143,000 in these advance royalty payments, of which US$24,000 was paid in the year ended December 31, 2013; remaining payments are US$24,000, annually. Further the Company has the option to purchase these claims for a total purchase price of US$1,000,000.

In April 2007, the Company entered into a Mineral Lease Agreement to acquire 17 unpatented lode mining claims, paying US$10,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company was required to pay US$15,000 annually as a prepayment towards a production royalty of 2.5% of NSR of all mineral substances produced from the claims. In 2011, the Company acquired full ownership of these claims for a cash payment of US$50,000 and the issuance of 25,000 of its common shares valued at $33,750, in addition to US$60,000 in cumulative annual payments made prior to acquisition, thereby eliminating future advance royalty payments.

In 2011, the Company staked 180 unpatented lode claims and seven placer claims and in 2012 an additional 196 unpatented lode claims were staked.

In August and October 2011, the Company entered into two lease agreements for water rights to support permitting and potential development of the Gibellini Property. Combined initial consideration for these rights included cash payments of US$195,000 and 50,000 common shares in the Company valued at $67,500. The Company was also required to make combined annual rental payments of US$225,000, which were adjusted for the Consumer Price Index. During the year ended December 31, 2013, the Company paid US$231,090 in such rental payments. Additionally, during the year ended December 31, 2013, the Company cancelled one of the agreements because the other rights were considered sufficient. The Company paid US$100,000 and has accrued for two further payments of US$25,000, one of which is due in each of 2014 and 2015. As a result of the cancellation, $390,338 in related capitalized costs from previous periods was written-off from the mineral property balance and an expense of $531,033 was incurred for the year ended December 31, 2013, comprising the amount written-off, the cancellation payments paid or accrued, and legal fees incurred for the cancellation.

b) Del Rio Property, Nevada, U.S.

In 2010, the Company acquired 120 claims through the staking process. No additional claims have been subsequently acquired.

c) Hot Creek Property, Nevada, U.S.

In 2010, the Company acquired 18 claims through the staking process. No additional claims have been subsequently acquired.

Acquisition costs

As at December 31, 2013 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs for mineral and related water rights. Changes to these carrying values are as follows:

	Gibellini	**Del Rio**	**Hot Creek**	**Total**
	$	**$**	**$**	**$**
As at January 1, 2012	1,487,089	39,683	9,171	1,535,943
Additions	386,224	-	-	386,224
As at December 31, 2012	1,873,313	39,683	9,171	1,922,167
Additions	385,455	-	-	385,455
Write-off of water rights	(390,338)	-	-	(390,338)
As at December 31, 2013	**1,868,430**	**39,683**	**9,171**	**1,917,284**

The Company has capitalized, rather than expensed, payments for mineral and related water rights on the basis that holding title to the related properties and water rights allows the Company to explore and develop these properties in the future. Acquiring and maintaining title to mineral properties involves certain inherent risks due to difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

Exploration and evaluation expenses

During the year ended December 31, 2013, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	**Del Rio**	**Hot Creek**	**Total**
	$	**$**	**$**	**$**
Environmental permitting	1,491,908	-	-	1,491,908
Metallurgy	904,067	-	-	904,067
Engineering, procurement and construction management	793,472	-	-	793,472
General	294,782	-	-	294,782
Power	258,515	-	-	258,515
Water	161,160	-	-	161,160
Geotechnical	157,032	-	-	157,032
Engineering	148,754	-	-	148,754
Leach pad design	114,167	-	-	114,167
Property maintenance	93,251	19,563	3,438	116,252
Drilling and trenching	16,308	-	-	16,308
Feasibility cost recovery	(172,371)	-	-	(172,371)
	4,261,045	**19,563**	**3,438**	**4,284,046**

During the year ended December 31, 2012, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	**Del Rio**	**Hot Creek**	**Total**
Restated (note 3)	**$**	**$**	**$**	**$**
Engineering, procurement and construction management	2,245,282	-	-	2,245,282
Environmental permitting	812,359	-	-	812,359
General	354,185	-	-	354,185
Metallurgy	344,177	-	-	344,177
Geotechnical	288,257	-	-	288,257
Drilling and trenching	210,748	-	-	210,748
Property maintenance	141,925	19,139	2,692	163,756
Engineering	113,834	-	-	113,834
Microgrid feasibility	77,743	-	-	77,743
Exploration	6,549	-	-	6,549
Feasibility	6,197	-	-	6,197
Power	5,433	-	-	5,433
Water	597	-	-	597
	4,607,286	**19,139**	**2,692**	**4,629,117**

Deferred engineering management expense and deposit

In 2011, the Company entered into the EPCM agreement with an independent contractor who will manage various phases of the development of a mine at Gibellini. These phases include basic and detailed engineering, asset and service procurement, and mine construction. On the commencement of the basic engineering phase, the Company paid a US$559,936 deposit, and additional monthly installments totalling US$2,799,679 have been paid. Payments made or accrued are recorded on the consolidated balance sheet as a deferred engineering management expense, which is then recognized as an expense on a percentage-of-completion basis over the duration of the anticipated service. As at December 31, 2013, the contractor has completed the basic engineering phase and all payments required under the phase have been made.

Impairment of engineering management deposit

In December 2013, the Company determined that, owing to expected changes to the contractor's future role in the Gibellini project, there was sufficient evidence that the economic benefits from the engineering management deposit may no longer flow to the Company, and that the IFRS criteria for asset recognition are no longer met. Consequently, an impairment of $568,895 has been recorded on the value of the deposit for the year ended December 31, 2013. However, when the contractor's role has been clarified and the economic benefits from the deposit, if any, are known, the Company may recognize a recovery on impairments recorded to date.

Changes to the deferred engineering management expense and deposit balance are as follows:

	Amount
	$
Balance, January 1, 2012	1,079,390
Monthly installments paid or accrued	1,714,373
Expense recognized for percentage-of-completion achievement	(2,245,282)
Foreign exchange gain	8,599
Balance, December 31, 2012	557,080
Monthly installments paid or accrued	537,978
Expense recognized for percentage-of-completion achievement	(537,978)
Foreign exchange gain	11,815
Impairment	(568,895)
Balance, December 31, 2013	**-**

6. SHAREHOLDERS' EQUITY

Share capital

Authorized

Unlimited number of common voting shares with no par value.

Issued and outstanding

	Number of Common Shares	Amount
		$
Outstanding, January 1, 2012	27,443,397	14,058,111
Issued through private placements, net of share issuance costs	5,780,853	3,211,082
Issued on exercise of stock options	200,000	121,994
Issued on vesting of performance shares	100,000	70,000
Outstanding, December 31, 2012	33,524,250	17,461,187
Issued through private placements, net of share issuance costs	13,267,698	6,447,200
Issued on exercise of stock options	53,250	56,151
Issuance of bonus shares and vesting of performance shares	325,000	133,000
Outstanding, December 31, 2013	**47,170,198**	**24,097,538**

Private placements

On September 12, 2012, the Company completed a non-brokered private placement of 3,225,854 common share units at a price of $0.62 per unit for gross proceeds of $2,000,030. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitled the holder to purchase an additional common share at a price of $1.00 until March 12, 2014. The value of these units had been bifurcated between common shares at a value of $0.55 per share and warrants at a value of $0.07 per one-half warrant. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled $86,985.

Between December 19, 2012 and December 21, 2012, the Company completed non-brokered private placements of 2,554,999 common share units at a price of $0.65 per unit for gross proceeds of $1,660,749. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitled the holder to purchase an additional common share at a price of $1.00 until December 19, 2013 or December 21, 2013. The full value of these units was attributed to the value of the common shares. An additional 139,245 agent's warrants were issued as part of this private placement with a fair value of $28,763. Each agent's warrant entitled the holder to purchase one common share at a price of $1.00 per common share until December 19, 2013 or December 21, 2013. Transaction costs for the private placements, which include the fair value of agent's warrants, cash commissions, and legal and other fees, totalled $136,902.

On April 11, 2013, the Company completed a non-brokered private placement of 1,607,698 common share units at a price of $0.70 per unit for gross proceeds of $1,125,388. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $1.20 until April 11, 2014. The value of these units has been bifurcated between common shares at a value of $0.58 per share and warrants at a value of $0.12 per one-half warrant. An additional 840 agent's warrants were issued as part of this private placement with a fair value of $93. Each agent's warrant entitles the holder to purchase one common share at a price of $1.20 per common share until April 11, 2014. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled $14,075.

On September 30, 2013, the Company completed the first of two tranches of a non-brokered private placement. Under this tranche, the Company issued 8,130,000 common share units at a price of $0.50 per unit for gross proceeds of $4,065,000. Each unit consists of one common share, one-half of one common share purchase warrant exercisable at $0.60 (“0.60 Warrant”) and one-half of one common share purchase warrant exercisable at $0.80 (“0.80 Warrant”). Each whole $0.60 Warrant entitles the holder to purchase an additional common share at a price of $0.60 until March 30, 2014 and each whole $0.80 Warrant entitles the holder to purchase an additional common share at a price of $0.80 until September 30, 2015. The value of these units has been bifurcated between common shares at a value of $0.49 per share with the residual value of $0.01 being attributed to the warrants. Agents for the private placement received 23,100 of the $0.60 Warrants and 23,100 of the $0.80 Warrants with a combined fair value of $3,628. Transaction costs for this tranche, which include cash commissions, and legal and other fees, totalled $154,663.

On November 4, 2013, the Company completed the second tranche of the September 30, 2013 non-brokered private placement. Under the second tranche, the Company issued 3,530,000 common share units at a price of $0.50 per unit for gross proceeds of $1,765,000. Each unit consists of one common share, one-half of one common share purchase warrant exercisable at $0.60 (“$0.60 Warrant”) and one-half of one common share purchase warrant exercisable at $0.80 (“$0.80 Warrant”). Each whole $0.60 Warrant entitles the holder to purchase an additional common share at a price of $0.60 until May 4, 2014 and each whole $0.80 Warrant entitles the holder to purchase an additional common share at a price of $0.80 until November 4, 2015. The full value of these units is attributed to the value of the common shares. Agents for the private placement received 16,800 of the $0.60 Warrants and 16,800 of the $0.80 Warrants with a combined fair value of $3,104. Transaction costs for this tranche, which include cash commissions, and legal and other fees, totalled $59,400.

Restricted share units (“RSUs”)

The Company has an RSU plan, adopted in fiscal 2013, allowing the Board of Directors of the Company, at its discretion and in accordance with the requirements of the Exchange, to grant to directors, officers, employees and consultants to the Company, non-transferable RSUs. Upon meeting certain operational milestones or other vesting conditions, the RSUs will be exchanged for common shares in the Company for the recipient’s benefit. RSUs will expire three years from grant if performance-based vesting conditions are not met.

The maximum number of RSUs that can be issued under the RSU plan is 3,500,000 and the combined maximum number of common shares issuable under the RSU and stock options plans shall not exceed a rolling 10% of the Company’s issued and outstanding number of common shares. The Company may grant, subject to Exchange approval, compensatory shares or RSUs outside the RSU plan, which may have different characteristics than those permitted by the plan.

During the year ended December 31, 2013, the Company issued 200,000 RSUs to an employee of the Company. These RSUs will vest in tranches as certain environmental permitting and mine development milestones for Gibellini are achieved. No RSUs have vested as at December 31, 2013 and no expense has been recognized for the potential achievement of vesting conditions.

Bonus and performance shares

Subject to shareholder or regulatory approvals, the Company may, outside the RSU plan, grant the shares to employees or consultants (“Bonus Shares”) or the right for employees and consultants to earn common shares in the Company based on meeting certain performance conditions (“Performance Shares”). An expense is recorded for Performance Shares when it is considered likely that the performance conditions required will be met and that shares will be issued. An expense is recorded for Bonus Shares equivalent to the prevailing fair market value of the shares at the time of issuance. The expense recorded for Performance Shares and Bonus Shares results in a corresponding increase to the Company’s share capital.

During the year ended December 31, 2013, the Company granted 250,000 Bonus Shares with a fair value of $96,250.

Changes to the balance of unvested Performance Shares are as follows:

	Number of Performance Shares	Fair Market Value when Vested
		$
Outstanding, January 1, 2012	425,000	N/A
Granted	400,000	N/A
Performance shares vested	(100,000)	70,000
Outstanding, December 31, 2012	725,000	N/A
Performance or bonus shares granted	310,000	N/A
Performance shares vested	(75,000)	36,750
Outstanding, December 31, 2013	**960,000**	**N/A**

No expense has been recognized for the potential achievement of vesting conditions for performance shares outstanding as at December 31, 2013.

The performance milestones for the issuance of the Performance Shares outstanding as at December 31, 2013 are as follows:

Performance Milestone	Number of Shares Issuable
Project permitting for the Gibellini property	175,000
Design and construction of mine leach pad on the Gibellini property	200,000
Completion of detailed engineering	75,000
Economic production of the Gibellini property	200,000
Business development and planning	60,000*
Equity financing	250,000**

* 30,000 of these Performance Shares vested subsequent to December 31, 2013.
** All 250,000 of these Performance Shares vested subsequent to December 31, 2013. As a result 125,000 Common Shares have been issued and an additional 125,000 will be issued on a scheduled timeline throughout 2014.

An additional 150,000 Performance Shares were granted subsequent to December 31, 2013, all of which have vested and will result on a scheduled release of common shares throughout 2014.

Warrants

Changes to the balance of warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Life
		$	$	(Years)
Outstanding, January 1, 2012	2,353,400	1.92	0.28	
Warrants expired	(1,602,983)	1.88	0.07	
Warrants issued as part of common share units	2,890,425	1.00	0.08	
Warrants issued as agent's and finder's fees	139,245	1.00	0.21	
Outstanding, December 31, 2012	3,780,087	1.20	0.21	
Warrants issued as part of common share units	12,463,848	0.73	0.02	
Warrants issued as agent's and finder's fees	80,640	0.71	0.08	
Warrants expired	(2,167,160)	1.35	0.26	
Outstanding, December 31, 2013	**14,157,415**	**0.76**	**0.04**	**1.1**

The fair value of warrants included in common share units is determined as the excess in the value of the unit over the market price of the Company's common shares on the date the units are issued. The fair value of agent's and finder's warrants issued on a stand-alone basis is determined using the Black-Scholes option pricing model. On a weighted average basis, the following Black-Scholes model inputs have been used to value such warrants granted:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Risk-free interest rate	**1.55%**	1.14%
Annual dividends	**-**	-
Expected stock price volatility	**73.06%**	90.12%
Expected life	**1 year**	1 year

The following warrants were outstanding and exercisable as at December 31, 2013:

Expiry date	**Exercise Price**	**Number of Warrants Outstanding and Exercisable**
	$	
March 12, 2014*	1.00	1,612,927
March 30, 2014**	0.60	4,088,100
April 11, 2014*	1.20	804,688
May 4, 2014***	0.60	1,781,800
September 30, 2015	0.80	4,088,100
November 4, 2015	0.80	1,781,800
		14,157,415

***** Subsequent to December 31, 2013, these warrants expired.
** Subsequent to December 31, 2013, the expiration date for 4,065,000 of these warrants was extended to September 30, 2014 and 23,100 of these warrants expired.
*** Subsequent to December 31, 2013, the expiration date for 1,765,000 of these warrants was extended to November 4, 2014.

Stock options

The Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the requirements of the Exchange, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Stock Options	**Weighted Average Exercise Price**	**Weighted Average Fair Value**	**Weighted Average Remaining Life**
		$	**$**	**(Years)**
Outstanding, January 1, 2012	2,325,500	0.88	0.64	
Options granted	665,000	0.73	0.37	
Options exercised	(200,000)	0.35	0.26	
Options cancelled or forfeited	(235,000)	1.29	0.94	
Outstanding, December 31, 2012	2,555,500	0.84	0.58	
Options granted	1,575,000	0.63	0.29	
Options exercised	(53,250)	0.70	0.36	
Options cancelled or forfeited	(188,000)	1.22	0.82	
Outstanding, December 31, 2013	**3,889,250**	**0.73**	**0.45**	**3.20**

During the year ended December 31, 2013, the Company issued 53,250 common shares on the exercise of stock options. Cash proceeds from the exercise of these options were $37,276 and an additional $18,875 in fair value attributed to these options at the time of grant was reclassified from equity reserves to share capital.

The fair values of the stock options granted during the years ended December 31, 2013 and December 31, 2012 have been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for these options are as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Risk-free interest rate	**1.26%**	1.09%
Annual dividends	**-**	-
Expected stock price volatility	**79.60%**	85.79%
Expected forfeiture rate	**18.79%**	20.31%
Expected life	**2.93 years**	2.55 years

The following incentive stock options were outstanding and exercisable at December 31, 2013:

Expiry date	**Exercise Price**	**Number of Options Outstanding**	**Number of Options Exercisable**
	$		
January 21, 2015	0.35	687,500	687,500
April 1, 2015	0.75	40,000	40,000
August 18, 2015	0.75	50,000	50,000
November 2, 2015	0.70	275,000	275,000
December 13, 2015	1.00	10,000	10,000
December 29, 2015	1.05	15,000	15,000
December 31, 2015	1.14	50,000	50,000
February 7, 2016	1.56	100,000	100,000
March 7, 2016	1.50	25,000	25,000
March 23, 2016	1.53	300,000	300,000
July 19, 2016	1.34	100,000	100,000
August 2, 2016*	0.60	50,000	50,000
February 6, 2017	0.77	65,000	65,000
April 3, 2017	0.70	100,000	100,000
April 12, 2017	0.74	50,000	50,000
May 31, 2017	0.70	96,750	96,750
June 15, 2017	0.74	300,000	300,000
January 7, 2018	0.90	30,000	30,000
August 26, 2018	0.70	310,000	105,000
November 4, 2018	0.60	1,195,000	895,000
December 2, 2018	0.60	40,000	-
		3,889,250	**3,344,250**

* These options were re-priced on November 19, 2013 to $0.60. The Company originally recorded fair value of $45,172 at the time of grant. At the time of re-pricing, the Company recorded an additional incremental expense of $4,072.

The assumptions used in the pricing model for these options are as follows:

Risk free interest rate	1.20%
Annual dividends	-
Expected stock price volatility	84.41%
Expected life	2.29 years

7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2013, a $78,000 (2012 - $78,000) expense was recorded for office facilities, corporate and administrative services provided by a company jointly controlled by a director of the Company, of which $8,891 is included in accounts payable and accrued liabilities as at December 31, 2013 (December 31, 2012 - $27,605).

During the year ended December 31, 2013, a $180,000 expense (2012 - $180,000) was recorded for consulting services provided by a company jointly controlled by a director of the Company who resigned subsequent to December 31, 2013. Included in accounts payable and accrued liabilities at December 31, 2013 is an advance of $15,750 (December 31, 2012 - $nil) made to this related company.

Included in prepaid expenses as at December 31, 2013 is $10,000 (December 31, 2012 - $10,000) advanced to the Chief Executive Officer of the Company for corporate expenses to be incurred on the Company's behalf. Included in accounts payable and accrued liabilities as at December 31, 2013 is $8,271 (December 31, 2012 - $10,186) owing to this officer.

Included in accounts payable and accrued liabilities as at December 31, 2013 is $15,200 (December 31, 2012 - $21,453) owing to the Executive VP, Operations; and $4,057 (December 31, 2012 - $4,343) owing to the Vice President, Environmental.

In addition to the aforementioned related party transactions, salaries and benefits and other compensation earned directly by key members of the Company's management and directors are as follows:

	For the Year Ended December 31, 2013	For the year ended December 31, 2012
	$	$
Salaries and benefits, including the value of performance shares vested and bonus shares	**547,945**	451,066
Consulting fees	**170,076**	96,442
Stock-based compensation recognized	**193,219**	185,254
Total compensation	**911,240**	732,762

8. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographical information is as follows:

	Net Comprehensive Loss	
	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012
	$	$
Canada	**2,381,281**	2,234,175
United States	**5,898,264**	5,037,953
Total net comprehensive loss	**8,279,545**	7,272,128

	Non-current, Non-financial Assets as at	
	December 31 2013	December 31 2012
	$	$
Canada	**31,929**	32,730
United States	**2,027,935**	1,963,668
Total assets non-current, non-financial assets	**2,059,864**	1,996,398

9. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012 Restated
	$	$
Accounting loss before income taxes	**(8,279,545)**	(7,272,128)
Expected income tax (recovery) at statutory tax rates	**(2,132,000)**	(1,818,000)
Change in statutory, foreign tax, foreign exchange rates and other	**(539,000)**	(478,000)
Permanent differences	**405,000**	84,000
Share issue costs	**(58,000)**	(49,000)
Changes in unrecognized deductible temporary differences	**2,324,000**	2,261,000
Total income tax recovery	**-**	-

The Canadian income tax rate increased during the year due to changes in the law that reduced corporate income tax rates in Canada.

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	December 31 2013	December 31 2012
	$	$
Deferred tax assets:		
Mineral properties	**3,827,000**	2,737,000
Equipment	**3,000**	8,000
Share issue costs	**150,000**	148,000
Non-capital losses	**3,205,000**	1,713,000
Total deferred tax assets	**7,185,000**	5,024,000
Deferred tax assets not recognized	**(7,185,000)**	(5,024,000)
Net deferred tax assets	**-**	-

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

	December 31 2013	Expiry Date Range	December 31 2012	Expiry Date Range
	$		$	
Mineral properties	**11,257,000**	No expiry date	9,278,000	No expiry date
Equipment	**12,000**	No expiry date	24,000	No expiry date
Share issue costs	**577,000**	2034-2037	593,000	2033-2036
Non-capital losses	**11,107,000**	2027-2033	6,341,000	2027-2032

Tax attributes are subject to review, and potential adjustment, by tax authorities.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2013, the Company's financial instruments are comprised of cash, amounts receivable, reclamation deposits and accounts payable and accrued liabilities. With the exception of cash, all financial instruments held by the Company are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Cash	1,460,897	-	-

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk

A portion of the Company's expenses are incurred in United States dollars and financial instrument balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the United States dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

The Company has not hedged its exposure to currency fluctuations and, as at December 31, 2013, the Company held $728,778 in net liabilities denominated in United States dollars. A prolonged $0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a $72,877 foreign exchange gain (loss) based on United States dollar denominated net liabilities as at December 31, 2013.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources will be sufficient to cover the likely short term cash requirements and further funding will be required to meet long-term requirements.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest bearing accounts which pay relatively low rates of interest, the Company considers the interest rate risk to be limited.

11. CAPITAL MANAGEMENT

The Company manages its capital structure, which comprises the components of shareholders' equity, and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2013. The Company is not subject to externally imposed capital requirements.

12. LOSS PER SHARE

The numerators and denominators of basic and diluted loss per share for the years ended December 31, 2013 and December 31, 2012 are as follows:

	For the year Ended December 31, 2013	For the year Ended December 31, 2012
Net loss (numerator)	**$(8,279,545)**	$(7,272,128)
Basic and diluted weighted average number of common shares outstanding (denominator)	**37,244,971**	28,693,513
Basic and diluted loss per share	**$(0.22)**	$(0.25)

The Company incurred net losses for all periods reported, so no dilutive impact of in-the-money stock options and warrants has been included in the calculation of diluted weighted average number of common shares outstanding.

13. COMMITMENTS AND CONTINGENCIES

The Company is committed to the following expenditures:

Nature of payment	**2014**	**2015**	**2016**	**2017**	**2018**
Mineral rights[1]	US$144,000	US$144,000	US$144,000	US$144,000	US$144,000
Water rights[2]	US$150,000	US$150,000	US$125,000	US$125,000	US$125,000
Equipment[3]	EUR88,500				
Salaries	US$50,000	-	-	-	-
Office lease	Cdn$140,816	Cdn$140,816	Cdn$140,816	-	-

1. As described in Note 5, the Company makes NSR prepayments in order to acquire and maintain mineral rights to its properties. To maintain certain of its properties in good standing, the Company is required to continue making these payments. While not contractually committed to further payments, the Company considers these to be constructive commitments.
2. As described in Note 5, the Company makes annual rental payments to maintain water rights for its properties. While not contractually committed to further payments, the Company considers these to be constructive commitments.
3. As described in Note 4, the Company made an instalment payment towards the purchase of equipment in 2013. Remaining instalments of 88,500 Euros are expected in 2014.

As discussed in Note 6, the Company has 200,000 RSUs outstanding that would result in the issuance of up to 200,000 common shares, contingent on meeting certain operational milestones. As the events that would result in the issuance of these shares have not occurred, no provision for their payment has been recorded.

As discussed in Note 6, up to 960,000 of the Company's shares are issuable upon meeting various milestones for the development of the Gibellini property and for achieving certain strategic objectives. As the events that would result in the issuance of these shares had not occurred as at December 31, 2013, no provision for their payment has been recorded.

14. EVENTS AFTER THE REPORTING PERIOD

On March 6, 2014, the Company completed the first tranche of a non-brokered private placement of 10,000,000 common share units at a price of $0.40 per unit for gross proceeds of $4,000,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.60 until March 6, 2016.